MGR-18-019: Zero Market Value Procedures for AUP Cotton and Cottonseed

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Date

December 21, 2018

To

All Approved Insurance Providers
All Risk Management Agency Field Offices
All Other Interested Parties

From

Martin R. Barbre, Administrator /s/ Martin R. Barbre

Subject

Zero Market Value Procedures for AUP Cotton and Cottonseed

Background

Cotton producers experienced, and continue to experience, a significant amount of wet weather during the 2018 cotton harvest, resulting in the quality (seed sprouting, mold, etc.) of both unharvested cotton and cotton modules rapidly deteriorating in the field. Gins are rejecting damaged modules, as well as samples of unharvested cotton, resulting in unmarketable cotton and cottonseed. Current procedure allows rejected production that is unable to be ginned due to poor quality caused by an insurable cause of loss during the insurance period, to be deemed zero market value (ZMV) and quality adjusted to zero production to count.

There are two issues:

1. Destruction Requirement: ZMV procedure requires destruction of production prior to being quality adjusted to zero production to count; and
2. Cottonseed: ZMV procedure only applies to the lint portion of the cotton, not the seed.

Action

RMA authorizes the use of these procedures for all 2018 cotton production deemed ZMV. Application of these procedures is limited to those situations where the catastrophic nature of the losses, due to insured perils, is such that not authorizing these procedures would result in unnecessary delays processing claims and the ability to make timely policy decisions.

RMA is authorizing the following procedure for Approved Insurance Providers (AIPs) to utilize, on a case-by-case basis, to assist impacted policyholders and increase the efficiency of AIP services and determinations.

AUP Cotton: For situations where cotton has not been exposed to flood water, but is considered unable to be ginned due to an insurable cause of loss during the insurance period:

1. Follow procedure found in subparagraph 1102H of the 2018 Loss Adjustment Manual (LAM) on ZMV Production.
2. The AIP must obtain documentation from the gin stating the cotton is unable to be ginned and is being rejected. The documentation must include the policyholder’s name, the specific reason the cotton is unable to be ginned and the associated farm number/field id.
3. During the on-the-farm inspection, AIPs may finalize claims based on policyholder’s signed certification that the production will not be ginned or salvaged in any way and must be destroyed. This certification may be included in the Narrative of the production worksheet or on a separate certification form. The policyholder must sign and date the certification statement stating:

> “I will not attempt to have the cotton ginned and will destroy the production, utilizing a destruction method determined acceptable by my AIP, as soon as possible, but no later than March 31, 2019, unless an extension has been granted by my AIP. I understand that if any portion of my ZMV production is salvaged (sold, ginned, etc.), or if any form of compensation is received, I will notify my AIP immediately; resulting in a corrected claim and repayment of any overpaid indemnity.”

Cottonseed: When unharvested cotton or cotton modules have been deemed ZMV, as a result of not being able to be ginned due to quality caused by an insurable

cause of loss, the associated cottonseed production to count is authorized to be determined equal to zero. This determination must be documented in the Narrative of the production worksheet.

For all claims utilizing the procedures in this bulletin, AIPs must:

1. Submit all information through the Policy Acceptance and Storage System (PASS) for applicable Appendix III to the Standard Reinsurance Agreement (SRA) record types with a simplified claim flag of "Z."
2. Document in each claim folder that these procedures were applied. Record in the Narrative of the production worksheet: "ZMV procedures applied per MGR-18-019." Based on the guidance provided in this bulletin, claims that have already been processed may be corrected in accordance with paragraph 1238 of the 2018 LAM.

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DISPOSAL DATE:
March 31, 2019